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**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Audited Financial Statements  
For the Year Ended June 30, 2018**

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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**INDEPENDENT AUDITOR'S REPORT**

# **LOWERY, PAYN AND LEGGETT**

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## **INDEPENDENT AUDITOR'S REPORT**

Dr. J Stephen Bishop, President and Board of Trustees  
Southwest Mississippi Community College  
Summit, Mississippi 39666

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of Southwest Mississippi Community College, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We audited the statements of Southwest Mississippi Community College Foundation, Inc., as of and for the year ended June 30, 2018, which represents 100 percent of the assets and revenues of the discretely presented component unit.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Southwest Mississippi Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented

component unit of Southwest Mississippi Community College, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of College's Proportionate Share of Net Pension Liability, the Schedule of College Contributions (PERS), the Schedule of the College's Proportionate Share of Net OPEB Liability, and the Schedule of College Contributions (OPEB) on pages 5-19 and 59-62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southwest Mississippi Community College's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2019, on our consideration of Southwest Mississippi Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southwest Mississippi Community College's internal control over financial reporting and compliance.

  
Lowery, Payn and Leggett, CPAs

Brookhaven, Mississippi  
January 31, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS



SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

This section of the Southwest Mississippi Community College (the "college") annual financial report presents our discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2018. Management has prepared this section along with the financial statements and related footnote disclosures and it should be read in conjunction with and is qualified in its entirety by the financial statements and footnote disclosures. We have included in this discussion comparative data for fiscal year 2017. The financial statements, footnote disclosures, and this discussion are the responsibility of management.

### **Using this Annual Report**

This annual report consists of a series of financial statements, prepared in accordance with the Government Accounting Standards Board Statement (GASB) No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The college implemented GASB 68, Accounting and Financial Reporting for Pensions in fiscal year ending June 30, 2015. This new standard requires the college to record its proportionate share of the pension liability of the Mississippi Public Employees Retirement System (PERS). The new standard has a significant impact on the liabilities and net position of the college as discussed below. See the defined pension plan note to the financial statements and required supplementary information for further information regarding pension liability. Also see, the Unrestricted Net Position Exclusive of Plant Assets and Plant-Related Debt section of this Management Discussion and Analysis.

The college implemented GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pension Accounting in fiscal year ending June 30, 2018. This new standard requires the college to record its proportionate share of other postemployment benefits (OPEB) liability of the Mississippi State and School Employees' Life and Health Insurance Plan. The new standard has a significant impact on the liabilities and net position of the college as discussed below. See the other postemployment benefits note to the financial statements and required supplementary information for further information regarding OPEB liability. Also see, the Unrestricted Net Position Exclusive of Plant Assets and Plant-Related Debt section of this Management Discussion and Analysis.

One of the most important questions asked is whether the college as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. These Statements present financial information in a form similar to that used by corporations. These statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

### **Statement of Net Position**

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources. The college's net position (the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources) is one indicator of the college's financial health. Over time, increases or decreases in net position are one indicator of the improvement or erosion of the college's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

The following is a summary of the college's statement of net position for fiscal year ended June 30, 2018 compared to the year ended June 30, 2017:

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

**Condensed Statement of Net Position**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>Assets</b>		
Current assets	\$ 15,311,894	\$ 13,256,757
Non-current assets		
Capital, net	39,322,946	40,152,379
Other	<u>4,328,392</u>	<u>4,403,554</u>
Total Assets	<u>\$ 58,963,232</u>	<u>\$ 57,812,690</u>
<b>Deferred outflows of resources</b>		
Deferred outflow related to pension	2,462,254	5,647,429
Deferred outflow related to OPEB	<u>69,242</u>	
Total deferred outflows of resources	<u>\$ 2,531,496</u>	<u>\$ 5,647,429</u>
<b>Liabilities</b>		
Current Liabilities	1,941,051	1,686,379
Non-current liabilities	<u>28,082,570</u>	<u>28,703,464</u>
Total liabilities	<u>\$ 30,023,621</u>	<u>\$ 30,389,843</u>
<b>Deferred inflows of resources</b>		
Deferred inflow related to pension	1,487,490	1,753,668
Deferred inflow related to OPEB	<u>64,947</u>	
Total deferred inflows of resources	<u>\$ 1,552,437</u>	<u>\$ 1,753,668</u>
<b>Net Position</b>		
Net investment in capital assets	\$ 37,123,224	\$ 37,969,492
Restricted		
Non-expendable	776,459	907,350
Expendable	4,986,063	4,453,452
Unrestricted	<u>(12,967,076)</u>	<u>(12,013,686)</u>
Total Net Position	<u>\$ 29,918,670</u>	<u>\$ 31,316,608</u>

**Assets**

**Current Assets**

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in the college's bank accounts, petty cash, certificates of deposits and other eligible investments as allowed by the State of Mississippi. The total amount of cash and cash equivalents, reported as current assets on the college's financial statements is \$12,271,236 at June 30, 2018, compared to \$10,789,439 at June 30, 2017.

**Accounts Receivable**

Accounts receivable relate to several transactions including local appropriations, student tuition and fee billings, and auxiliary services such as food service and bookstore. In addition, receivables arise from grant awards and financial aid revenues. The receivables are reported net of allowance for doubtful accounts. The college's receivables totaled \$2,260,073 at June 30, 2018, compared to fiscal year 2017, \$1,723,692.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

**Inventories**

The college maintains inventories of resale merchandise in the college bookstore as well as items for internal consumption. Books, student supplies, sportswear, and institutional memorabilia make up the majority of the resale inventory. Inventories for the bookstore and cafeteria totaled \$264,950 and \$322,563 for FY 2018 and FY 2017, respectively.

**Prepaid Expense**

Prepaid expense totaled \$502,050 at June 30, 2018 as compared to a June 30, 2017 total of \$416,787. Prepaid expense consists of payments for the 2019 fiscal year for which payment to vendors occurred before fiscal year end June 30, 2018.

**Non-Current Assets**

**Restricted Cash and Cash Equivalents and Loan Fund Investments**

Restricted cash and cash equivalents represents cash held in a money market account for loan funds. The balance of restricted cash and cash equivalents for fiscal year ended June 30, 2018 and fiscal year ended June 30, 2017 were \$118,703 and \$214,040, respectively. Loan fund investments include investments, as allowed by the State of Mississippi, held for loan funds. Loan fund investments totaled \$2,984,749 for fiscal year ended June 30, 2018 and \$2,879,562 fiscal year ended June 30, 2017.

**Endowment Investments and Other Long-Term Investments**

The college holds endowment investments of \$860,762 at fiscal year end June 30, 2018. The endowment investment balance at June 30, 2017 was \$945,774. Other long-term investments (land in loan funds) totaled 364,178 at June 30, 2018 and 2017.

**Capital Assets, Net**

Capital assets, net, consists of land, improvements other than buildings, buildings, equipment, software, leased property under capital lease, library books and films and construction in progress. The amount reported is net of accumulated depreciation. Capital assets, net, totaled \$39,322,946 at June 30, 2018, which is a decrease of \$829,433 from \$40,152,379 at June 30, 2017.

**Deferred Outflows of Resources**

The college recognized a deferred outflow of resources related to pensions in the amount of \$2,462,254 for fiscal year ending June 30, 2018 as compared to \$5,647,429 for fiscal year ending June 30, 2017. The college also recognized a deferred outflow of resources related to OPEB in the amount of \$69,242 for fiscal year ending June 30, 2018. The college implemented GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pension Accounting in fiscal year ending June 30, 2018. Deferred outflows of resources have a positive effect on net position similar to assets, but are not assets.

**Liabilities**

**Current Liabilities**

**Accounts Payable, Accrued Liabilities and Accrued Payroll**

Accounts payable and accrued liabilities represent amounts due at June 30, 2018 for goods and services received before the end of the fiscal year, but have yet to be paid at June 30, 2018. Accrued payroll would be wages, salaries, and the related payroll taxes and benefits that have been earned by the

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

college's employees, but have yet to be paid at June 30, 2018. The accounts payable, accrued liabilities, and accrued payroll total at June 30, 2018, is \$1,096,225, an increase of \$112,162 over the balance of \$984,063 at June 30, 2017.

**Unearned Revenues**

Unearned revenues represent revenues that were received by the college during the fiscal year, but the college did not earn the revenue by the end of the June 30, 2018 fiscal year. The unearned revenue totaled \$502,050 at June 30, 2018 and \$416,787 at June 30, 2017. This change was an increase from the prior year of \$85,263.

**Long-Term Liabilities, Due within One Year**

Long-term liabilities, due within one year portion represents the balances that the college would expect to pay on notes, bonds, and accrued leave liabilities within the next fiscal year. The amount of the current portion of long-term liabilities at June 30, 2018 was \$327,715 and \$273,168 at June 30, 2017. This change was an increase from the prior year of \$54,547. Due to the implementation of GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions during fiscal year ending June 30, 2018, the amount of net OPEB liability, due within one year, \$52,110, is included in the long-term liabilities, due within one year, total.

**Non-Current Liabilities**

**Long-Term Liabilities, Due beyond One Year**

Long-term liabilities, due beyond one year consist of long-term debt for outstanding capital leases and loans. The total amount of the non-current portion of long-term debt at June 30, 2018 and 2017 was \$1,924,117 and \$1,909,719, respectively.

**Net Pension Liability and Net OPEB Liability**

Net pension liability for June 30, 2018 is \$24,935,091 which represents the college's proportionate share of the collective net pension liability reported in the Public Employees' Retirement System of Mississippi for the year ended June 30, 2017. See the Defined Benefit Pension Plan Note for further information regarding the college's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions. For comparison, the net pension liability for June 30, 2017 was \$26,793,745.

Net OPEB liability for June 30, 2018 is \$1,223,362 which represents the non-current portion of the college's proportionate share of the collective OPEB liability reported in the Mississippi State and School Employees' Life and Health Insurance Plan for the year ended June 30, 2017. See the Other Postemployment Benefits Note for further information regarding the college's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to OPEB. Due to the implementation of GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions during fiscal year ending June 30, 2018, the amount of net OPEB liability for June 30, 2017 was \$0.00.

**Deferred Inflows of Resources**

The college recognized a deferred inflow of resources related to pensions in the amount of \$1,487,490 for fiscal year ending June 30, 2018 as compared to \$1,753,668 for fiscal year ending June 30, 2017. The college also recognized a deferred inflow of resources related to OPEB in the amount of \$64,947 for fiscal year ending June 30, 2018. Deferred inflows of resources have a negative effect on net position that is similar to liabilities, but are not liabilities.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

## Net Position

Net position represents the difference between the college's assets, deferred outflows of resources, liabilities and deferred inflows of resources. Total net position at June 30, 2018 was \$29,918,670 which is a decrease of \$1,397,938 from the total net position of \$31,316,608, at June 30, 2017.

### Net Investment in Capital Assets

For fiscal year ended June 30, 2018, the net investment in capital assets portion of the college's net position was \$37,123,224 a decrease of \$846,268 from the prior year.

### Restricted Net Position (Non-Expendable and Expendable)

Restricted non-expendable net position consists of endowment gifts with specific restrictions on spending the principal given. Restricted expendable net position consists of gifts with specific restrictions, grants from third-party agencies with expenditure restrictions, plant funds restricted for capital projects and debt service, and loan funds.

The following is a breakdown of the restricted net position (non-expendable and expendable):

	2018	2017	Increase (Decrease)
Non-expendable endowment funds	\$ 776,459	\$ 907,350	\$ (130,891)
Expendable			
Scholarships	80,547	27,319	53,228
Debt service	321,591	319,839	1,752
Capital projects	1,064,599	601,174	463,425
Loans to students	3,467,630	3,457,780	9,850
Other purposes	51,696	47,340	4,356
Total restricted net position	<u>\$ 5,762,522</u>	<u>\$ 5,360,802</u>	<u>\$ 401,720</u>

### Unrestricted Net Position

Unrestricted net position represents balances from operational activities that have not been restricted by parties external to the college. This includes funds that are normal working capital balances maintained for departmental and auxiliary enterprise activities. Unrestricted assets are available to the college for any lawful purpose.

The following is a breakdown of the unrestricted net position:

	2018	2017	(Decrease)
Unrestricted General Funds	(\$15,953,565)	(\$14,727,361)	(\$1,226,204)
Unrestricted Auxiliary Funds	2,613,151	2,354,599	258,552
Unrestricted Designated General Funds	373,338	359,076	14,262
	<u>\$ (12,967,076)</u>	<u>\$ (12,013,686)</u>	<u>\$ (953,390)</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

In connection with the implementation of GASB 68, Accounting and Financial Reporting for Pensions and GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, management represents the following information:

	<u>2018</u>	<u>2017</u>
Total unrestricted net position (deficit)	\$ (12,967,076)	\$ (12,013,686)
Unrestricted deficit in net position resulting from the implementation of GASB 68	23,960,327	22,899,985
Unrestricted deficit in net position resulting from the implementation of GASB 75	<u>1,271,177</u>	
Unrestricted net position (excluding net pension liability effect)	\$ <u><u>12,264,428</u></u>	\$ <u><u>10,886,299</u></u>

The above table represents what the college's Unrestricted Net Position would be without the implementation of GASB 68 and GASB 75. GASB 68 and GASB 75 distort the College's true activity and financial position. Total Unrestricted Net Position including implementation of GASB 68 and GASB 75 is (\$12,967,076). Total Unrestricted Net Position without GASB 68 and GASB 75 would be \$12,264,428.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

***Statement of Revenues, Expenses and Changes in Net Position***

The statement of revenues, expenses, and changes in net position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. The financial reporting model classifies state appropriations, local appropriations, and gifts as non-operating revenues. Due to the reporting classifications for community colleges, their dependency on state appropriations, local appropriations and gifts results in an operating deficit.

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

	<u>2018</u>	<u>2017</u>
<b>Operating revenues</b>		
Tuition and fees, net	\$ 2,344,484	\$ 2,059,723
Grants and contracts	10,328,467	7,752,375
Sales and services	7,243	8,324
Auxiliary enterprises (net)	1,775,966	1,693,503
Other operating revenues	357,437	425,622
<b>Total operating revenues</b>	<u>14,813,597</u>	<u>11,939,547</u>
<b>Operating expenses</b>	<u>24,781,525</u>	<u>25,350,206</u>
Operating loss	<u>(9,967,928)</u>	<u>(13,410,659)</u>
<b>Non-operating revenues (expenses)</b>		
State appropriations	6,253,947	8,607,528
Local appropriations	2,782,228	2,690,579
Gifts and contributions	234,942	224,099
Investment income (net)	131,193	71,807
Interest on indebtedness	(46,675)	(52,278)
<b>Net non-operating revenues (expenses)</b>	<u>9,355,635</u>	<u>11,541,735</u>
<b>Income (loss) before other revenues</b>	<u>(612,293)</u>	<u>(1,868,924)</u>
<b>Other revenues (expenses)</b>		
State appropriations capital use restricted	<u>473,991</u>	<u>2,584,965</u>
<b>Change in net position</b>	(138,302)	716,041
<b>Net position:</b>		
Net position, as previously reported	31,316,608	30,600,567
Prior period adjustment, OPEB	<u>(1,259,636)</u>	<u>0</u>
Net position, beginning of year as restated	30,056,972	30,600,567
Net position, end of year	<u>\$ 29,918,670</u>	<u>\$ 31,316,608</u>

Total operating loss for fiscal year 2018 and 2017 was \$9,967,928 and \$13,410,659, respectively. Since the State of Mississippi appropriations amount is not included within operating revenue per GASB No. 35, the college will always show a significant operating loss.

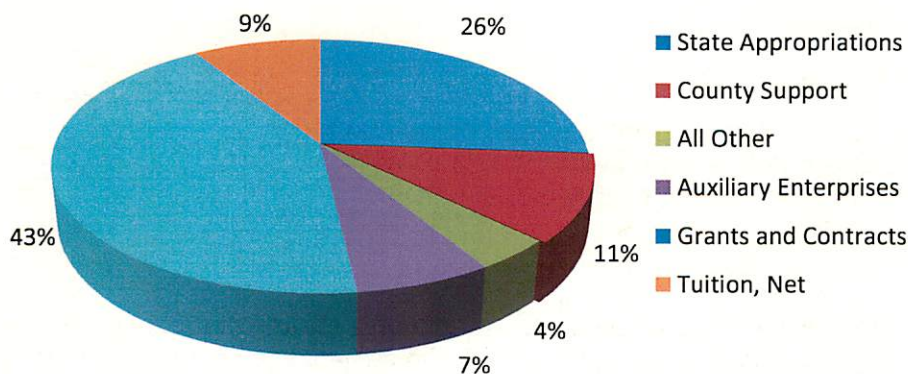
The sources of operating revenue for the college are tuition and fees, grants and contracts, auxiliary services, and other operating revenues.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

The college strives to provide students with the opportunity to obtain a quality education. Future enrollments at the college may be affected by a number of factors including any material increases in tuition and other mandatory charges stemming from any material decrease in appropriation from the State of Mississippi.

In the fiscal year ended June 30, 2018, the college's expenditures exceeded revenues, creating a change in net position of (\$138,302), compared to a \$716,041 change in net position in fiscal year 2017.

**Total Revenue by Source for Fiscal Year 2018**



Total operating revenues for fiscal year 2018 are \$14,813,597, compared to \$11,939,547 for fiscal year 2017. Tuition and fees for fiscal year 2018 are \$2,344,484, compared to \$2,059,723 for fiscal year 2017. Grants and contracts are \$10,328,467 for fiscal year 2018 and were \$7,752,375 for fiscal year 2017. Auxiliary services and other operating revenues are also included in operating revenues.

## Revenues

### Operating Revenues

#### Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$2,344,484 in fiscal year 2018 and \$2,059,723 for fiscal year 2017. Scholarship allowances for the 2018 and 2017 fiscal year was \$4,452,551 and \$3,717,757, respectively

#### Grants and Contracts Revenue

Grants and contracts revenue includes all federal and state restricted revenues made available by government agencies, as well as private agencies. Grant revenues are recorded only to the extent that the funds have been expended for exchange transactions. Non-exchange revenues are recorded when received or when eligibility criteria have been met.



SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

The following table details the college's grant and contract awards for the fiscal year ended June 30, 2018 and 2017:

	2018	2017	Increase (Decrease)
Federal sources	\$ 8,200,076	\$ 5,767,771	\$ 2,432,305
State sources	2,094,599	1,944,604	\$ 149,995
Other sources	33,792	40,000	\$ (6,208)
Total all sources	<u>\$10,328,467</u>	<u>\$ 7,752,375</u>	<u>\$ 2,576,092</u>

**Auxiliary Enterprises Revenue, Net**

Auxiliary enterprises, net consists of enterprise entities that exist predominantly to furnish goods and services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting. Auxiliary enterprises primarily include the bookstore, student and campus housing, and food services.

The following table details the college's auxiliary enterprises, net of scholarship allowances for the fiscal years ended June 30, 2018 and 2017:

	2018	2017
Bookstore	\$ 1,238,067	\$ 1,213,651
Student and campus housing	737,353	736,449
Food services	846,354	842,543
Other	175,865	13,615
Subtotal	\$ 2,997,639	\$ 2,806,258
Less: Scholarship allowances	<u>(1,221,673)</u>	<u>(1,112,755)</u>
Net auxiliary enterprises revenue	<u>\$ 1,775,966</u>	<u>\$ 1,693,503</u>

**Operating Expenses**

Operating expenses for fiscal year 2018 are \$24,781,525 as compared to fiscal year 2017 of \$25,350,206. Pension expense of \$2,560,299 and OPEB expense of \$65,916 was included in fringe benefits during fiscal year 2018 due to GASB 68 and GASB 75.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

The following table details the college's operating expenses by object and by functional classification for the fiscal years ended June 30, 2018 and 2017:

Expenses by Object:	2018	2017	Increase (Decrease)
Salaries and wages	9,749,160	9,978,059	(228,899)
Fringe benefits	4,093,887	4,424,773	(330,886)
Travel	307,115	357,372	(50,257)
Contractual services	2,601,875	2,443,089	158,786
Utilities	848,043	748,808	99,235
Scholarships	2,243,862	2,284,297	(40,435)
Commodities	2,376,329	3,073,078	(696,749)
Depreciation expense	1,799,545	1,161,737	637,808
Other operating expense	761,709	878,993	(117,284)
Total Operating Expenses	24,781,525	25,350,206	(568,681)

Expenses by Functional Classification:	2018	2017	Increase (Decrease)
Instruction	9,331,431	9,432,249	(100,818)
Instructional Support	526,293	513,903	12,390
Student Services	2,844,389	3,008,120	(163,731)
Institutional Support	2,578,970	2,575,896	3,074
Operation of Plant	2,896,457	3,062,738	(166,281)
Student Financial Aid	2,243,862	2,284,297	(40,435)
Auxiliary Enterprises	2,560,578	3,311,266	(750,688)
Depreciation	1,799,545	1,161,737	637,808
Total Operating Expenses	24,781,525	25,350,206	(568,681)

### Non-Operating Revenues (Expenses)

#### State Appropriation

The college's largest source of non-operating revenue is the appropriation from the State of Mississippi. The college received State appropriations of \$6,727,938 for fiscal year 2018, of which \$6,253,947 was for general operations and \$473,991 was for State appropriation restricted for capital purposes. The college received State appropriations of \$11,192,493 for fiscal year 2017, of which \$8,607,528 was for general operations and \$2,584,965 was for State appropriation restricted for capital purposes. State appropriations decreased by \$4,464,555 or 40% from fiscal year 2017 to fiscal year 2018.

#### Local County Appropriation

The college receives revenue from the four counties Amite, Pike, Walthall, and Wilkinson that make up its local district. The college uses these funds for general operational purposes. During fiscal year 2018 the

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

colleges received \$2,782,228 from these counties, representing an increase of \$91,649 from for fiscal year 2017. The college receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1<sup>st</sup>.

**Investment Income, Net**

Investment income, net includes the interest income and investment gains or losses on cash in the bank accounts, money market accounts, mutual funds, and the school's investment pooling account net of any fees charged. Investment income for fiscal year 2018 was \$131,193, compared to investment income of \$71,807 in fiscal year 2017.

**Interest Expense on Capital Asset Related Debt**

The college previously issued notes, loans and capital leases to finance capital projects. The interest payments associated with these long-term obligations was \$46,675 for fiscal year 2018, compared to \$52,278 for fiscal year 2017.

**State Appropriation for Capital Purposes**

This is the amount of revenue received from the State of Mississippi to purchase, construct, renovate or repair capital assets during the fiscal year. The college received \$473,991 and \$2,584,965 in fiscal years 2018 and 2017, respectively.

***Statement of Cash Flows***

Another way to assess the financial health of the college is to look at the statement of cash flows of the college during a period. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the college during a fiscal period. The statement of cash flows also helps users assess the following:

- The ability to generate future net cash flows.
- The ability to meet obligations as they come due, and
- A need for external financing.

The statement of cash flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

**Condensed Statement of Cash Flows (Direct Method)**

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents provided (used) by:		
Operating activities	(7,557,258)	(9,814,815)
Noncapital financing activities	9,367,970	11,561,068
Capital/related financing activities	(525,961)	41,348
Investing activities	<u>101,709</u>	<u>64,185</u>
Net increase in cash and cash equivalents	1,386,460	1,851,786
Cash and cash equivalents – Beginning of Year	<u>11,003,479</u>	<u>9,151,693</u>
Cash and cash equivalents – End of Year	<u>12,389,939</u>	<u>11,003,479</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

The major sources of funds comprising operating activities for fiscal year 2018 include student tuition and fees \$2,132,242, auxiliary enterprises \$1,775,966, and grants and contracts \$9,868,646. The major uses of funds for fiscal year 2018 were payments made to employees \$12,779,930, to suppliers \$6,592,407, and for scholarships \$2,243,862. In comparison, the major sources of funds comprising operating activities for fiscal year 2017 include student tuition and fees \$1,880,139, auxiliary enterprises \$1,693,503, and grants and contracts \$7,760,788. The major uses of funds for fiscal year 2017 were payments made to employees \$12,908,800, to suppliers \$6,398,585, and for scholarships \$2,284,297.

The largest inflow of cash in the non-capital financing activities group is the state appropriation of \$6,340,944 and the county appropriation of \$2,782,228 for fiscal year 2018. For comparison, the amounts received for fiscal year 2017 for state appropriation was \$8,642,182 and county appropriation was \$2,690,579. State appropriations decreased by \$2,301,238 or 27% from fiscal year 2017 to fiscal year 2018.

### Capital Asset Transactions

The college capitalizes assets that have a value or cost equal to or greater than \$5,000 at the date of acquisition and an expected useful life of more than one year. Repairs and renovations that do not extend the life of the building beyond the expected useful life at acquisition, nor increase the future service potential of the building are expensed and not capitalized.

Equipment and property under capital lease are depreciated over their useful lives, generally 3 to 20 years beginning in the year of acquisition. Buildings and improvements (or infrastructure) are depreciated over their estimated useful lives, generally 20 to 40 years for buildings and 20 years for improvements beginning in the year that the construction is completed or, if purchased after construction, when acquired. Library books and software are depreciated over 10 years. When a construction project is completed, the capital project costs are moved from the construction in progress account to either buildings or improvements as appropriate.

As shown in the following table, the college value of net capital assets decreased by \$829,433 during the fiscal year 2018:

	2018	2017	Increase (Decrease)
Land	\$ 122,124	\$ 122,124	\$ -
Construction in progress	168,132	8,832,981	(8,664,849)
Buildings	52,115,072	42,999,310	9,115,762
Improvements	9,227,978	8,858,564	369,414
Machinery and equipment	3,289,104	3,148,375	140,729
Library books and media	862,162	853,106	9,056
Software	400,000	400,000	-
Capital Lease	2,380,870	2,380,870	-
Total capital assets	\$ 68,565,442	\$ 67,595,330	\$ 970,112
Accumulated depreciation	(29,242,496)	(27,442,951)	(1,799,545)
Net capital assets	\$ 39,322,946	\$ 40,152,379	\$ (829,433)

In addition to costs incurred, the college had \$106,208 at fiscal year end in outstanding commitments for a construction project which will provide a renovation to the campus water tower.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

**Unrestricted Net Position Exclusive of Plant Assets and Plant-Related Debt**

The college presents the following statement of unrestricted net position, exclusive of plant and plant-related debt (UNAEP) for fiscal years 2015, 2016, 2017, and 2018. The purpose of calculating UNAEP is to determine the level of assets available to meet day-to-day obligations of the institution. Recent changes in accounting standards, especially by the Governmental Accounting Standards Board (GASB), have introduced elements that may need to be considered when deriving a workable UNAEP statement. Specifically, public institutions are required to record pension obligations, GASB 68, and other post-employment benefits (OPEB) GASB 75. GASB 68 and GASB 75 compliance requires the College to record deferred outflows, deferred inflows, net pension liability, net OPEB liability, and expenses (adjustment to expenses for pensions and OPEB) that distort the College's true activity and financial position. To present a true image of net position, the UNAEP statement below displays net position, unrestricted, exclusive of plant and plant-related debt and unrestricted net position without the transactions of GASB 68 and GASB 75.

Statement of Unrestricted Net Position, Exclusive of Plant and Plant-Related Debt

(For the Year Ended June 30)

	2018	2017	2016	2015
<b>Assets</b>				
Cash and Cash Equivalents	12,389,939	11,003,479	9,151,693	6,286,272
Student, Grants, and Other Receivable	2,260,073	1,723,692	1,695,239	3,531,697
Inventories and Prepaid Expenses	767,000	739,350	1,685,485	3,324,541
Investments	4,223,274	4,193,790	4,186,168	4,193,033
<b>Total Assets</b>	<b>19,640,286</b>	<b>17,660,311</b>	<b>16,718,585</b>	<b>17,335,543</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflow related to pensions and OPEB	2,531,496	5,647,429	6,337,737	2,865,499
<b>Liabilities and Net Position</b>				
Accounts Payable	551,093	430,164	369,805	150,709
Accrued and Other Liabilities	545,132	553,899	399,184	400,431
Student and Other Deposits	15,061	12,361	7,682	8,716
Unearned Revenues	502,050	416,787	420,570	347,130
Net Pension Liability & OPEB	26,210,563	26,793,745	24,732,844	20,634,887
<b>Total Liabilities</b>	<b>27,823,899</b>	<b>28,206,956</b>	<b>25,930,085</b>	<b>21,541,873</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflow to pensions and OPEB	1,552,437	1,753,668	3,165,560	2,991,179
<b>Net Position</b>				
Unrestricted, Exclusive of Plant and Plant-Related Debt	(7,204,554)	(6,652,884)	(6,039,323)	(4,332,010)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

**GASB 68 and GASB 75 impact  
on Net Position**

	2018	2017	2016	2015
Total Net Position	29,918,670	31,316,608	30,600,567	28,531,676
Deferred outflows of resources- pension and OPEB	(2,531,496)	(5,647,429)	(6,337,737)	(2,865,499)
Deferred inflows of resources- pension and OPEB	1,552,437	1,753,668	3,165,560	2,991,179
Net Pension and OPEB liability	26,210,563	26,793,745	24,732,844	20,634,887
Total impact of GASB 68 & GASB 75	25,231,504	22,899,984	21,560,667	20,760,567
Net Position net of GASB 68 and GASB 75 impact	55,150,174	54,216,592	52,161,234	49,292,243
Less net investment in capital assets	37,123,224	37,969,492	36,639,890	32,863,686
Less restricted net position	5,762,522	5,360,802	4,869,019	6,125,788
Unrestricted Net Position	12,264,428	10,886,298	10,652,325	10,302,769

**Long-Term Debt Activities**

At the beginning of the current fiscal period, the total long-term debt obligations of the college consisted of a capital lease agreement, a revolving loan, and a dormitory note. The capital lease agreement was paid in full during the fiscal year and a baseball lighting note was entered into during the fiscal year. The revolving loan provided for a campus-wide sewer system renovation and the dormitory note funded the construction of a new men's dormitory.

As shown in the following table, the college's long-term liabilities increased during fiscal year 2018:

	2018	2017	Increase (Decrease)
Loans and leases payable	\$2,199,722	\$ 2,182,887	\$16,835
Total long-term liabilities	\$2,199,722	\$ 2,182,887	\$16,835

**Factors Impacting Future Periods**

There are a number of issues of Community College-wide importance that directly impacted the fiscal year 2018 financial situation. The level of State support and student tuition and fee increases impact the college's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriations contribute a major percentage of revenue for the college. The level of State support is therefore one of the key factors influencing the college's financial condition.

Reserves are an essential part of maintaining financial strength and viability which indicate whether resources are sufficient and flexible enough to support the mission of the college. Financial strength can be measured through calculating a Primary Reserve Ratio (expendable net position / total operating and non-operating expenses) which indicates how long the college could function using its expendable reserves to cover operations should additional net position not be available. The national benchmark for

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018

public institutions like the college is maintaining at least one semester or four months of reserves sufficient for operations. The college currently holds expendable net position sufficient to operate 8.2 months without generating revenues.

Various committees and individuals are assessing the college's performance toward identified goals and ways to achieve greater efficiencies and reduce expenditures in an effort to assist in meeting the future challenges.

**Contact Information**

If you have questions about this report, contact the Southwest Mississippi Community College, Vice President for Financial Affairs, 1156 College Drive, Summit, MS 39666-9029.

**AUDITED FINANCIAL STATEMENTS**



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**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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**Statement of Net Position****June 30, 2018****Assets****Current Assets:**

Cash and cash equivalents	\$ 12,271,236
Short term investments	13,585
Accounts receivable, net	902,180
Grants and contracts receivable, net	1,357,893
Inventories	264,950
Prepaid expenses	<u>502,050</u>
Total Current Assets	<u>15,311,894</u>

**Non-current Assets:**

Restricted cash and cash equivalents	118,703
Loan fund investments	2,984,749
Endowment investments	860,762
Other long-term investments (land in loan funds)	364,178
Capital assets, net of accumulated depreciation	<u>39,322,946</u>
Total Non-current Assets	<u>43,651,338</u>
Total Assets	<u>58,963,232</u>

**Deferred Outflows of Resources:**

Deferred outflow related to pensions	2,462,254
Deferred outflow related to OPEB	<u>69,242</u>
Total Deferred Outflows of Resources	<u>2,531,496</u>

Total assets and deferred outflows \$ 61,494,728

**Liabilities****Current Liabilities**

Accounts payable and accrued liabilities	\$ 551,093
Accrued payroll	545,132
Unearned revenues	502,050
Deposits refundable	15,061
Long-term liabilities, due within one year:	275,605
Net OPEB liability	<u>52,110</u>
Total current liabilities	<u>\$ 1,941,051</u>

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**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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**Statement of Net Position****June 30, 2018****Non-Current Liabilities**

Long-term liabilities, due beyond one year	\$ 1,924,117
Net pension liability	24,935,091
Net OPEB liability	<u>1,223,362</u>
Total non-current liabilities	<u>28,082,570</u>

**Deferred inflows of resources**

Deferred inflow related to pensions	1,487,490
Deferred inflow related to OPEB	<u>64,947</u>
Total deferred inflows of resources	<u>1,552,437</u>

**Net Position**

Net investment in capital assets	37,123,224
Restricted for:	
Expendable:	
Scholarships and fellowships	80,547
Debt service	321,591
Capital improvements	1,064,599
Loans to students	3,467,630
Other purposes	51,696
Non-expendable:	
Scholarships and fellowships	776,459
Unrestricted	(12,967,076)
Total net position	<u>29,918,670</u>
Total liabilities, deferred inflows and net position	<u>\$ 61,494,728</u>

The notes to the financial statements are an integral part of this statement.

Southwest Mississippi Community College Foundation, Inc.  
Statement of Financial Position  
June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Assets</b>				
Cash and Investments	\$ 26,154	\$ 274,269	\$ 25,559	\$ 325,982
Investments	-	10,899	217,444	228,343
Accounts Receivable	-	1,055	-	1,055
<b>Total Assets</b>	<u>\$ 26,154</u>	<u>\$ 286,223</u>	<u>\$ 243,003</u>	<u>\$ 555,380</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ -	\$ 1,829	\$ -	\$ 1,829
<b>Net Assets</b>				
Unrestricted	26,154	-	-	26,154
Temporarily Restricted	-	284,394	-	284,394
Permanently Restricted	-	-	243,003	243,003
<b>Total Net Assets</b>	<u>26,154</u>	<u>284,394</u>	<u>243,003</u>	<u>553,551</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 26,154</u>	<u>\$ 286,223</u>	<u>\$ 243,003</u>	<u>\$ 555,380</u>

The notes to the financial statements are an integral part of this statement.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2018

#### Operating Revenues

Tuition and fees (net of scholarship allowances of \$4,452,551)	\$ 2,344,484
Federal grants and contracts	8,200,076
State grants and contracts	2,094,599
Nongovernmental grants and contracts	33,792
Sales and services of educational departments	7,243
Auxiliary enterprises:	
Student housing (net scholarship allowances of \$582,625)	154,728
Food services ( net of scholarship allowances of \$639,048)	207,306
Bookstore	1,238,067
Other auxiliary revenues	175,865
Other operating revenues	357,437
Total operating revenues	<u>14,813,597</u>

#### Operating Expenses

Salaries and wages	9,749,160
Fringe benefits	4,093,887
Travel	307,115
Contractual services	2,601,875
Utilities	848,043
Scholarships and fellowships	2,243,862
Commodities	2,376,329
Depreciation	1,799,545
Other operating expenses	761,709
Total Operating Expenses	<u>24,781,525</u>

Operating Income (Loss)	<u>(9,967,928)</u>
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#### Non-operating Revenues (Expenses)

State appropriations	6,253,947
Local appropriation	2,782,228
Gifts and contributions	234,942
Net unrealized and realized gains on long-term investments	-
Investment income	131,193
Interest expense on capital asset-related debt	(46,675)
Total Net Nonoperating Revenues (Expenses)	<u>9,355,635</u>
Income (Loss) before Other Revenues, Expenses, Gains and Losses	<u>(612,293)</u>

#### Other Revenues

State appropriation restricted for capital purposes	473,991
Total Other Revenues	<u>473,991</u>

Change in Net Position	<u>(138,302)</u>
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#### Net Position

Net position, beginning of year as previously reported	31,316,608
Prior period adjustments	(1,259,636)
Net position, beginning of year restated	<u>30,056,972</u>

Net position, end of year	<u>\$ 29,918,670</u>
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The notes to the financial statements are an integral part of this statement.

Southwest Mississippi Community College Foundation, Inc.  
Statement of Activities  
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains and Support				
Contributions	\$ 10,626	\$ 70,360	\$ 36,000	\$ 116,986
Investment Income	2,622	458	7,798	10,878
Unrealized Gains on Investment	-	-	-	-
Other	-	3,700	-	3,700
Total Revenues, Gains and Support	13,248	74,518	43,798	131,564
Expenses and Deductions				
Program Services				
Scholarships	-	17,630	-	17,630
Other Expenses				
Management and General	12,587	12,148	-	24,735
Unrealized Loss on Investment	-	178	3,031	3,209
Total Expenses	12,587	29,956	3,031	45,574
Increase in Net Assets	661	44,562	40,767	85,990
Net Assets at Beginning of Year	25,493	239,832	202,236	467,561
Net Assets at End of Year	\$ 26,154	\$ 284,394	\$ 243,003	\$ 553,551

The notes to the financial statements are an integral part of this statement.

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**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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**Statement of Cash Flows****For the Year Ended June 30, 2018****Cash flows from operating activities:**

Tuition and fees	\$ 2,132,242
Grants and contracts	9,868,646
Sales and services of educational departments	7,243
Payments to suppliers and students	(6,592,407)
Payments to employees for salaries and benefits	(12,779,930)
Cash received (paid) on deposits	2,700
Payments for utilities	-
Payments for scholarships and fellowships	(2,243,862)
Auxiliary enterprise charges	1,775,966
Other receipts (payments)	<u>272,144</u>
Net cash provided (used) by operating activities	<u>(7,557,258)</u>

**Cash flows from noncapital financing activities:**

State appropriations	6,340,944
Local appropriations	2,782,228
Other sources (uses)	<u>244,798</u>
Net cash provided (used) by noncapital financing activities	<u>9,367,970</u>

**Cash flows from capital and related financing activities:**

Capital appropriations	473,991
Proceeds from issuance of debt	290,000
Purchases of capital assets	(970,112)
Principal paid on capital debt and leases	(273,165)
Interest paid on capital debt and leases	<u>(46,675)</u>
Net cash provided (used) by capital and related financing activities	<u>(525,961)</u>

**Cash flows from investing activities:**

Proceeds from sales and maturities of investments	-
Interest and dividends received on investments	131,193
Purchases of investments	<u>(29,484)</u>
Net cash provided (used) by investing activities	<u>101,709</u>

Net increase (decrease) in cash and cash equivalents	<u>1,386,460</u>
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Cash and cash equivalents - beginning of year	<u>11,003,479</u>
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Cash and cash equivalents - end of year	<u>\$ 12,389,939</u>
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The notes to the financial statements are an integral part of this statement.

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**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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**Statement of Cash Flows****For the Year Ended June 30, 2018****Reconciliation of operating income (loss) to net cash provided (used)****by operating activities:**Operating Income (Loss) \$ (9,967,928)**Adjustments to reconcile net income (loss) to net cash provided (used)****by operating activities**

Depreciation expense 1,799,545

Changes in assets and liabilities

(Increase) decrease in assets

Receivables, Net (163,557)

Inventories 57,613

Intergovernmental receivables (459,821)

Other assets (85,293)

Increase (decrease) in liabilities

Accounts payable and accrued liabilities 111,103

Accrued payroll (8,767)

Deferred revenue 85,263

Deposits refundable 2,700

Change in net pension and OPEB liability and deferred amounts 1,071,884Total Adjustments 2,410,670**Net cash provided (used) by operating activities** \$ (7,557,258)**Reconciliation of cash and cash equivalents to the Statement of Net Position**

Cash and cash equivalents classified as current assets \$ 12,271,236

Cash and cash equivalents classified as non-current assets 118,703\$ 12,389,939

The notes to the financial statements are an integral part of this statement.

Southwest Mississippi Community College Foundation, Inc.  
Statement of Cash Flows  
For the Year Ended June 30, 2018

Increase in Net Assets	\$ 85,990
Cash Flows from Operating Activities:	
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Contributions received for permanent investment	(36,000)
Increase (decrease) in:	
Accounts payable and accrued liabilities	<u>(23,756)</u>
Net cash provided by operating activities	<u>26,234</u>
Cash Flows From Investing Activities:	
Net unrealized (gain) loss on investments	<u>(5,048)</u>
Net cash (used) by investing activities	<u>(5,048)</u>
Cash Flows From Financing Activities:	
Contributions restricted for permanent investment	<u>36,000</u>
Net cash provided by financing activities	<u>36,000</u>
Net Increase in Cash	57,186
Cash Balance	
Beginning of Year	<u>268,796</u>
End of Year	<u><u>\$ 325,982</u></u>

The notes to the financial statements are an integral part of this statement.



## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

#### **Note 1 – Summary of Significant Accounting Policies**

The accompanying financial statements of the community college have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the community college's accounting policies are described below.

##### **A. Nature of Operations**

Southwest Mississippi Community College (the "College") is a comprehensive two-year community and technical college. The College provides the students of its four county district and beyond with the opportunity to obtain an affordable quality education through academic and career technical curriculum leading to certificates, diplomas, or associates degrees.

##### **B. Reporting Entity**

Southwest Mississippi Community College was founded in 1932 and is one of Mississippi's 15 public community colleges. The legal authority for the establishment of Southwest Mississippi Community College is found in Section 37-29-31, Miss. Code Ann. (1972).

Southwest Mississippi Community College is governed by a seventeen member board of trustees, selected by the boards of supervisors of Amite, Pike, Walthall, and Wilkinson counties who support the college through locally assessed ad valorem tax millage. One of the trustees from each of the supporting counties must be the county superintendent of education, unless the superintendent chooses not to serve, in which case the county board of supervisors shall fill the vacancy in accordance with Section 37-29-65, Miss. Code Ann. (1972). Each board member is appointed for a 5 year term. In addition, Southwest Mississippi Community College works jointly with the Mississippi State Board for Community and Junior Colleges, which coordinates the efforts of all 15 community colleges as they serve the taxpayers of the State of Mississippi.

Southwest Mississippi Community College reports the following discretely presented component unit:

Southwest Mississippi Community College Foundation Inc. (Foundation). The foundation is a legally separate, tax-exempt nonprofit organization. The Foundation acts primarily as a fund raising organization to supplement the resources available to Southwest Mississippi Community College (College) in support of its programs. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income that the Foundation holds and invests are restricted to the activities of the College by the donors.

During the year ended June 30, 2018, the Foundation provided \$17,630 to the College in the form of scholarships to students. Significant note disclosures applicable to the Foundation's financial statements are presented at the end of the College's Notes to the Financial Statements. Complete financial statements for the Foundation can be obtained from: 1156 College Drive – Summit, MS 39666.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

#### **C. Basis of Presentation**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*, issued in June and November, 1999, respectively. The college now follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the college's financial activities.

#### **D. Basis of Accounting**

The financial statements of the college have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

The College prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB. The college has the option to apply any other accounting literature unless the literature conflicts with or contradicts a GASB pronouncement.

#### **E. Cash Equivalents**

For purposes of the Statement of Cash Flows, the college considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

#### **F. Short-term Investments**

Investments that are not cash equivalents but mature within the next fiscal year are classified as short-term investments

#### **G. Accounts Receivable, Net**

Accounts receivables consist of tuition and fees charges to students, state appropriations, amounts due from state and federal grants and contracts, local governments and credits due to the college from vendors. Accounts receivables are recorded net of an allowance for doubtful accounts.

#### **H. Inventories**

Inventories consist of bookstore inventory and food service supplies. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out (FIFO) basis or the average cost basis.

#### **I. Prepaid Expenses**

Prepaid expenses represent approved financial aid disbursements for the fall semester.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

#### **J. Restricted Cash and Cash Equivalents**

Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserved funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the Statement of Net Position. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

#### **K. Endowment Investments**

Endowment investments are generally subject to the restrictions of donor gift instruments. They include true endowment funds, which are funds received from a donor with the restrictions that only the income is to be utilized; term endowment funds, which are funds for which the donor has stipulated that the principal may be expended after a stated period or on the occurrence of a certain event, and quasi endowment funds, which are funds established by the governing board to function like an endowment fund but may be totally expended at any time at the discretion of the governing board.

#### **L. Capital Assets, net of Accumulated Depreciation**

Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value on the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See note 6 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.

#### **M. Unearned Revenues**

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

#### **N. Compensated Absences**

The college does not provide for the accumulation of leave beyond one year. Therefore, no accrual for compensated absences has been recorded in the financial statements.

#### **O. Classification of Revenues**

The college has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) most federal, state and local grants and contracts. Gifts (pledges) that are received on an installment basis are recorded at net present value.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

Non-operating revenues: Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations, local appropriations and investment income.

#### **P. State Appropriations**

Southwest Mississippi Community College receives funds from the State of Mississippi based on the number of full-time students actually enrolled and in attendance on the last day of the sixth week of the fall semester of the previous year, counting only those students who reside within the State of Mississippi. In the 2004 fiscal year, a new funding formula was to be phased in over a 5 year period which shifted the funding calculation from a predominantly full time student formula, weighted by type of student, to a full time equivalent formula which is based on total credit hours generated by all students with special consideration given to high cost programs.

#### **Q. Local Appropriations**

Southwest Mississippi Community College receives funds from taxes levied by the counties in the college for general support, maintenance, and capital improvements.

#### **R. Scholarship Discounts and Allowances**

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties and Federal Direct Lending, is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a college basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

#### **S. Net Position**

GASB statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, reports equity as "Net Position" rather than "Net Assets". Net position is classified in three categories. Net investment in capital assets is the portion of net position that consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or others. Unrestricted net position is the remaining net position less remaining noncapital liabilities which are not restricted-expendable.

The net position balance of \$29,918,670 at June 30, 2018, includes \$776,459 reserved for endowment, \$80,547 reserved for scholarships, \$321,591 reserved for debt service, \$1,064,599 reserved for capital projects, \$3,467,630 reserved for loans to students, \$51,696 reserved for other purposes and an unrestricted amount of \$(12,967,076).

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

#### **T. Income Taxes**

The college is recognized as a local governing authority and is excluded by the Internal Revenue Service from federal income taxation.

#### **U. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

#### **V. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. A deferred outflow associated with pensions and OPEB is reported.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. A deferred inflow associated with pensions and OPEB is reported.

See Note 10 and 11 for further details.

#### **W. Pensions**

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System ("PERS") and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **X. Postemployment Benefits Other than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State and School Employees' Life and Health Plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. Fiduciary net position was zero as of the measurement date of June 30, 2017. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

#### Note 2 – Cash and Cash Equivalents and Investments

##### A. Cash, Cash Equivalents and Short Term Investments

Investment policies as set forth by policy and state statute authorize the college to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U. S. Treasury bills and notes, and repurchase agreements.

The collateral pledged for the college's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

*Custodial Credit Risk - Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the college will not be able to recover deposits or collateral securities that are in the possession of an outside party. The college does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the college. As of June 30, 2018, none of the college's bank balance of \$12,570,897 was exposed to custodial credit risk.

##### B. Investments

Investment policies as set forth by board policy and as authorized by Section 37-101-15, Miss Code Ann. (1972), authorizes the college to invest in equity securities, bonds and other securities. Investments are reported at fair value.

The following table summarizes the carrying value of the college's investments reported on the statement of net position at June 30, 2018:

Endowment investments	\$ 860,762
Other short term investments	13,585
Other long term investments	364,178
Long term investments	<u>2,984,749</u>
Total Investments	<u>\$4,223,274</u>

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

As of June 30, 2018, the college had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Money Market Mutual Funds	Not Rated	Less than 1	\$ 3,806,857
Real Estate	Not Rated	N/A	364,178
Equity Securities	BBB+ to AAA	Less than 1	52,239
Certificates of Deposit	BA2 to BA3	1 to 14	-
Municipal Bonds	AA to AAA	1 to 10	-
Total			<u>\$ 4,223,274</u>

**Interest Rate Risk.** The college does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The college does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

**Custodial Credit Risk - Investments.** Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the college will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The college does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2018, none of the college's investment balance of \$4,223,274 was exposed to custodial credit risk.

**Concentration of Credit Risk.** Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2018, the college had the following investments:

Issuer	Fair Value	% of Total Investments
Sterne Agee/Money market funds	\$ 3,806,857	90%
Land investments	\$ 364,178	8%

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### Note 3 – Fair Value Measurements

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

- Level 1            Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2            Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets.
  - Quoted prices for identical or similar assets or liabilities in inactive markets.
  - Inputs other than quoted prices that are observable for the asset or liability.
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3            Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018.

*Mutual Funds and Equity Securities.* Valued at the closing price reported in the active markets in which the individual funds or securities are traded.

*Real Estate.* Valued at historical cost.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflected of future fair values. Furthermore, although the organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the organization's assets at fair value as of June 30, 2018.

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 3,806,857	-	-	\$ 3,806,857
Real Estate	-	-	364,178	\$364,178



# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

Equity Securities	<u>52,239</u>	<u>-</u>	<u>-</u>	<u>\$52,239</u>
Total	<u>\$3,859,096</u>	<u>-</u>	<u>\$364,178</u>	<u>\$4,223,274</u>

### Note 4 – Accounts Receivable

Accounts receivable consisted of the following at June 30, 2018:

Student receivables	\$ 3,082,660
Federal, state and private grants and contracts	1,357,893
State appropriations	-
Local appropriations	75,785
Other receivables	<u>-</u>
Total Accounts Receivable	4,516,338
Less allowance for doubtful accounts	<u>(2,256,266)</u>
Net Accounts Receivable	<u>\$ 2,260,072</u>

### Note 5 – Inventory

Inventory as of June 30, 2018 consists of the following:

Bookstore	\$ 243,772
Food Services	<u>21,178</u>
Total	<u>\$ 264,950</u>

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### Note 6 – Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	Balance 7/1/2017	Increases	Decreases	Adjustments	Balance 6/30/2018
<b><u>Non-depreciable capital assets:</u></b>					
Land	\$ 122,124				\$ 122,124
Construction in progress	8,832,981	820,327	(9,485,176)	-	168,132
Total non-depreciable capital assets	8,955,105	820,327	(9,485,176)	-	290,256
<b><u>Depreciable capital assets:</u></b>					
Buildings	28,975,667	9,115,762			38,091,429
Building improvements	14,023,643				14,023,643
Improvements other than buildings	8,858,564	369,414			9,227,978
Equipment	3,148,375	140,729			3,289,104
Software	400,000				400,000
Library books	853,106	9,331	(275)		862,162
Leased property under capital leases	2,380,870				2,380,870
Total depreciable capital assets	58,640,225	9,635,236	(275)		68,275,186
<b><u>Less accumulated depreciation for:</u></b>					
Buildings	13,265,754	654,569			13,920,323
Building improvements	5,115,166	540,688			5,655,854
Improvements other than buildings	4,449,553	263,621			4,713,174
Equipment	2,440,247	236,465	-		2,676,712
Software	320,000	-			320,000
Library books	820,957	8,967			829,924
Leased property under capital leases	1,031,274	95,235			1,126,509
Total accumulated depreciation	27,442,951	1,799,545	-	-	29,242,496
Total depreciable capital assets, net	31,197,274	7,835,691	(275)	-	39,032,690
Capital Assets, Net	\$ 40,152,379	\$ 8,656,018	\$ (9,485,451)	\$ -	\$ 39,322,946

Depreciation is computed on a straight-line basis with the exception of library books, which is computed using a composite method. The following useful lives, salvage values, and capitalization thresholds are used to compute depreciation:

	Capitalization Policy	Estimated Useful Life
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Equipment	5,000	3-15 years
Library books	0	10 years

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### Note 7 – Construction Commitments and Financing

The college has contracted for various construction projects as of June 30, 2018. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

	Total costs to complete	Funded by		
		Other Sources	State Sources	Institutional Funds
Water tower renovation	\$ 106,208	\$	\$ 106,208	\$
Total governmental activities	\$ 106,208	\$ -	\$ 106,208	\$ -

### Note 8 – Long-term Liabilities

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Original Issue	Annual Interest Rate	Maturity	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Amounts due within one year
WPC Revolving Loan	622,375	1.75%	2032	\$ 478,997	\$	\$ 29,275	\$ 449,722	\$ 29,794
Dormitory Construction	2,000,000	1-3%	2025	1,645,000		185,000	1,460,000	190,000
Stadium lighting lease	269,697	4.50%	2018	58,890		58,890	-	-
Baseball lighting loan	290,000	1.90%	2022	-	290,000		290,000	55,811
Total				\$ 2,182,887	\$ 290,000	\$ 273,165	\$ 2,199,722	\$ 275,605

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### Note 8 – Long-term Liabilities (continued)

The following is a schedule by years of the maturity of long term debt:

Year Ending June 30	Principal	Interest	Total
2019	\$ 275,605	\$ 45,986	\$ 321,591
2020	282,205	36,261	318,466
2021	293,827	31,624	325,451
2022	300,497	26,565	327,062
2023	307,189	20,961	328,150
2024-2028	613,425	31,858	645,283
2029-2032	126,974	4,020	130,994
	-	-	-
Total	\$ 2,199,722	\$ 197,275	\$ 2,396,997

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### Note 9 – Functional Classification of Operating Expenses

The College's operating expenses by functional classifications were as follows for the year ended June 30, 2018:

#### Natural Classification

Functional Classification	Salaries & Wages	Fringe Benefits	Contractual Travel	Contractual Services	Utilities	Scholarships Fellowships	Commodities	Depreciation Expense	Other	Total
Instruction	5,734,838	2,251,160	131,959	512,940			406,483		294,051	9,331,431
Academic Support	324,786	139,570	1114	9,085			10,011		41,727	526,293
Student Services	1,403,906	588,541	163,189	385,088			280,085		23,580	2,844,389
Institutional Support	1,084,035	484,110	10,641	731,469			75,084		193,631	2,578,970
Operation of Plant	739,485	354,955	212	571,446	547,143		488,276		194,940	2,896,457
Student Financial Aid						2,243,862				2,243,862
Auxiliary Enterprises	462,110	275,551		391,847	300,900		1,116,390		13,780	2,560,578
Depreciation								1,799,545		1,799,545
<b>Total Operating Expenses</b>	<b>9,749,160</b>	<b>4,093,887</b>	<b>307,115</b>	<b>2,601,875</b>	<b>848,043</b>	<b>2,243,862</b>	<b>2,376,329</b>	<b>1,799,545</b>	<b>761,709</b>	<b>24,781,525</b>

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

#### **Note 10 – Defined Benefit Pension Plan**

##### **General Information about the Pension Plan**

*Plan Description.* The college contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

*Benefits provided.* Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter.

*Contributions.* PERS members are required to contribute 9.00% of their annual covered salary, and the college is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2018 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The college's contributions to PERS for the fiscal years ending June 30, 2018, 2017 and 2016 were \$1,499,956, \$1,540,432 and \$1,535,088, respectively, which equaled the required contributions for each year.

##### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2018, the college reported a liability of \$24,935,091 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's long-term share of contribution to the pension plan relative to projected contributions of all participating entities,

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### **Note 10 – Defined Benefit Pension Plan (continued)**

actuarially determined. The college's proportionate share used to calculate the June 30, 2018 net pension liability was 0.15 percent, which was based on a measurement date of June 30, 2017. This was equal to the proportionate share also used to calculate the June 30, 2017 net pension liability, which was based on a measurement date of June 30, 2016.

For the year ended June 30, 2018, the college recognized pension expense of \$2,560,299. At June 30, 2018 the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 364,535	\$ 181,944
Net difference between projected and actual earnings on pension plan investments		362,898
Changes of assumptions	589,462	42,491
Changes in proportion and differences between college contributions and proportionate share of contributions	8,301	900,157
College contributions subsequent to the measurement date	1,499,956	
<b>Total</b>	<b>\$ 2,462,254</b>	<b>\$ 1,487,490</b>

\$1,499,956 reported as deferred outflows of resources related to pensions resulting from college contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2019	\$ (273,982)
2020	205,920
2021	24,528
2022	(481,658)

*Actuarial assumptions.* The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.25-18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2022, with males rates set forward one year.

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### **Note 10 – Defined Benefit Pension Plan (continued)**

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>		<u>Long-Term Expected Real Rate of Return</u>	
U.S. Broad	27.00	%	4.60	%
International Equity	18.00		4.50	
Emerging Markets Equity	4.00		4.75	
Global	12.00		4.75	
Fixed Income	18.00		0.75	
Real Estate	10.00		3.50	
Private Equity	8.00		5.10	
Emerging Debt	2.00		2.25	
Cash	1.00		0.00	
Total	100	%		

*Discount rate.* The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at the current employer contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the College's proportionate share of the net pension liability to changes in the discount rate.* The following table presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
College's proportionate share of the net pension liability	\$ 32,704,037	\$ 24,935,091	\$ 18,485,178

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.



## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

#### **Note 11 – Other Postemployment Benefits (OPEB)**

##### **General Information about the OPEB Plan.**

*Plan description.* State law mandates that all state, public education, library, junior and community college and retiring employees be offered health and life benefit coverage through the State and School Employees' Life and Health Insurance Plan (the Plan). The Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Plan. The Board has the sole legal authority to promulgate rules and regulations governing the operations of the Plan within the confines of the law governing the Plan. The Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The Plan provides for Other Postemployment Benefits (OPEB) as a multiple-employer defined benefit OPEB plan. A trust was created June 28, 2018 for the OPEB Plan and, while no trust was in place for the June 30, 2017 plan year-end, for purposes of comparability for future periods, terminology used herein is based on the plan being a cost-sharing multiple-employer defined benefit OPEB plan. The plan does not issue a stand-alone financial report.

##### *Benefits provided.*

The Plan was formed by the State Legislature to provide group health and life benefits to full-time active and retired employees of the State, agencies, universities, community/junior colleges, public school districts and public libraries. In addition, the spouse and/or children of covered employees and retirees, as well as surviving spouses and COBRA participants, may be eligible for health insurance coverage under the Plan. Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age adjusted. Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan. Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance must pay the full cost of such insurance premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance. The Plan offers a Base option and a Select option for health benefits for non-Medicare participants. The Plan includes a separate coverage level for Medicare eligible retirees, Medicare Eligible surviving spouses, and Medicare eligible dependents of retirees and surviving spouses.

##### *Contributions.*

The Board has the sole authority for setting life and health insurance premiums for the Plan. The required premiums vary based on the plan selected and the type of participant. Employers pay no premiums for retirees while employees' premiums are funded primarily by their employer. Contributions to the OPEB plan from the college were \$54,375 for the year ended June 30, 2018.

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### **Note 11 – Other Postemployment Benefits (OPEB) (continued)**

#### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB**

At June 30, 2018, the college reported a liability of \$1,275,472 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The basis for the college's proportion is determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the Plan in the fiscal year of all employers. The allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by the employee. At the measurement date of June 30, 2017, the college's proportion was 0.16256152 percent. This was an increase of 0.00214029 percent from the proportionate share as of the measurement date of June 30, 2016.

For the year ended June 30, 2018, the college recognized OPEB expense of \$65,916. At June 30, 2018, the college reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$	\$
Changes of assumptions		64,947
Net difference between projected and actual earnings on OPEB plan investments		
Changes in proportion and differences between college contributions and proportionate share of contributions	14,867	
College contributions subsequent to the measurement date	54,375	
Total	\$ <u>69,242</u>	\$ <u>64,947</u>

\$54,375 reported as deferred outflows of resources related to OPEB resulting from college contributions subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

#### Year Ending June 30:

2019	\$ (8,786)
2020	(8,786)
2021	(8,786)
2022	(8,786)
2023	(8,786)
Thereafter	(6,150)

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### Note 11 – Other Postemployment Benefits (OPEB) (continued)

*Actuarial assumptions.* The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00 percent
Salary increases	3.25-18.50 percent, including wage inflation
Long-term Investment Rate of Return, net of OPEB plan investment expense, including inflation	N/A
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	3.01 percent
Year FNP is projected to be depleted	
Measurement Date	2017
Prior Measurement Date	2016
Single Equivalent Interest Rate, net of OPEB plan investment expense, including inflation	
Measurement Date	3.56 percent
Prior Measurement Date	3.01 percent
Health Care Cost Trends	
Medicare Supplement Claims	7.75 percent for 2017 decreasing to an ultimate rate of 5.00 percent by 2023
Pre-Medicare	

Both pre-retirement and post-retirement mortality rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward 1 year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78 and 110% for ages 79 and greater. Post-disability mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward 4 years for males and 3 years for females.

The demographic actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated April 18, 2017.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The plan had no assets as of the measurement date of 2017.

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### Note 11 – Other Postemployment Benefits (OPEB) (continued)

*Discount rate.* The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.56 percent. Since the Prior Measurement Date, the Discount Rate has changed from 3.01% to 3.56%.

Since no trust was set up as of June 30, 2017, there was no projection of cash flows for the Plan and the Plan was projected to be depleted in 2017.

The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used, if necessary, for this purpose is the average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

*Sensitivity of the college's proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the college's proportionate share of the net OPEB liability, as well as what the college's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Net OPEB liability	\$ 1,309,157	\$ 1,275,472	\$ 1,250,387

*Sensitivity of the college's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the college's proportionate share of the net OPEB liability, as well as what the college's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates Current	1% Increase
Net OPEB liability	\$ 1,177,984	\$ 1,275,472	\$ 1,386,765

*OPEB plan fiduciary net position.* The fiduciary net position for the OPEB plan was zero as of June 30, 2017, the measurement date. Therefore, no separately issued financials were prepared. Detailed information about the OPEB plan's fiduciary net position for June 30, 2018 and going forward will be available in separately issued financial reports available on the Mississippi Department of Finance and Administration's website.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

#### Note 12– Contingencies

Federal Grants – The College has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the college.

#### Note 13 – Risk Management

The college is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The college carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### Note 14 – Effect of Deferred Amounts on Net Position

The unrestricted net position (deficit) amount of (\$12,967,076) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pensions in the amount of \$1,499,956 resulting from the college contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The \$962,298 balance of the deferred outflow of resources related to pensions at June 30, 2018 will be recognized as pension expense and will decrease the unrestricted net position amount over the next 3 years. The \$1,487,490 balance of the deferred inflow of resources related to pensions at June 30, 2018 will be recognized as a reduction of pension expense and will increase the unrestricted net position amount over the next 4 years.

The unrestricted net position (deficit) amount of (12,967,076) includes the effect of deferred inflows/outflows of resources related to OPEB. A portion of the deferred outflow of resources related to OPEB in the amount of \$54,375 resulting from the college contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources totaling \$14,867 and deferred inflows of resources totaling \$64,947 related to OPEB at June 30, 2018, will be recognized in OPEB expense over the next 6 years.

#### Note 15 – Prior Period Adjustments

A summary of significant Net Position/Fund Balance adjustments is as follows:

#### Exhibit B - Statement of Revenues, Expenses and Changes in Net Position

Explanation	Amount
To restate net position for the effect of recording the net OPEB liability, deferred outflows and inflows related to OPEB, and OPEB expense	\$ (1,259,636)
Total	<u>\$ (1,259,636)</u>

## **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

Notes to the Financial Statements  
For Year Ended June 30, 2018

### **Note 16 - Concentrations**

The College receives a significant portion of its revenues from federal and state funded programs and grants. Future funding of these programs is necessary for the College to continue the current level of programs and courses offered.

### **Note 17 – Consistency Between Reporting Periods**

Due to the classification of assets, liabilities, revenues, and expenses, immaterial inconsistencies may exist between reporting periods.

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Financial Statements For Year Ended June 30, 2018

### Note 18 -- Unrestricted Net Position Exclusive of Plant Assets and Plant-Related Debt

#### Statement of Unrestricted Net Position, Exclusive of Plant and Plant-Related Debt

(For the Year Ended June 30)

	2018	2017	2016	2015
<b>Assets</b>				
Cash and Cash Equivalents	12,389,939	11,003,479	9,151,693	6,286,272
Student, Grants, and Other Receivable	2,260,073	1,723,692	1,695,239	3,531,697
Inventories and Prepaid Expenses	767,000	739,350	1,685,485	3,324,541
Investments	4,223,274	4,193,790	4,186,168	4,193,033
<b>Total Assets</b>	<b>19,640,286</b>	<b>17,660,311</b>	<b>16,718,585</b>	<b>17,335,543</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflow related to pensions and OPEB	2,531,496	5,647,429	6,337,737	2,865,499
<b>Liabilities and Net Position</b>				
Accounts Payable	551,093	430,164	369,805	150,709
Accrued and Other Liabilities	545,132	553,899	399,184	400,431
Student and Other Deposits	15,061	12,361	7,682	8,716
Unearned Revenues	502,050	416,787	420,570	347,130
Net Pension and OPEB Liability	26,210,563	26,793,745	24,732,844	20,634,887
<b>Total Liabilities</b>	<b>27,823,899</b>	<b>28,206,956</b>	<b>25,930,085</b>	<b>21,541,873</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflow to pensions and OPEB	1,552,437	1,753,668	3,165,560	2,991,179
<b>Net Position</b>				
Unrestricted, Exclusive of Plant and Plant-Related Debt	(7,204,554)	(6,652,884)	(6,039,323)	(4,332,010)
<b>GASB 68 (Pensions) &amp; GASB 75 (OPEB) impact on Net Position</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Total Net Position	29,918,670	31,316,608	30,600,567	28,531,676
Deferred outflows of resources-pension and OPEB	(2,531,496)	(5,647,429)	(6,337,737)	(2,865,499)
Deferred inflows of resources-pension and OPEB	1,552,437	1,753,668	3,165,560	2,991,179
Net Pension and OPEB liability	26,210,563	26,793,745	24,732,844	20,634,887
Total impact of GASB 68 (Pensions) & GASB 75 (OPEB)	25,231,504	22,899,984	21,560,667	20,760,567
Net Position net of GASB 68 (Pensions) and GASB 75 (OPEB) impact	55,150,174	54,216,592	52,161,234	49,292,243
Less net investment in capital assets	37,123,224	37,969,492	36,639,890	32,863,686
Less restricted net position	5,762,522	5,360,802	4,869,019	6,125,788
Unrestricted Net Position	12,264,428	10,886,298	10,652,325	10,302,769

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2018

#### **Note 19 - Subsequent Events**

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Southwest Mississippi Community College evaluated the activity of the college through January 31, 2019 and determined that no subsequent event has occurred requiring disclosure in the notes to the financial statements.



**Southwest Mississippi Community College Foundation, Inc.**

Summit, Mississippi

Notes to the Financial Statements

For the Year Ended June 30, 2018

Note 1 Summary of Significant Accounting Policies

Statement of Organizational Activities

The purpose of the Foundation is to operate exclusively for educational and scientific purposes, all for the public welfare, and to this end to promote, encourage, and assist all forms of education and research at Southwest Mississippi Community College. The Foundation is an auxiliary organization of the College and administers scholarships to both students and faculty members and raises funds to supplement different areas of the entire college.

Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding accounting standards codification and the hierarchy of U.S. generally accepted accounting principles (U.S. GAAP). This guidance has become the source of the authoritative U.S. GAAP recognized by the FASB and applied by nongovernmental entities.

Basis of Presentation

The Foundation prepares its financial statements on the accrual basis of accounting. The accounts of the Foundation are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. In accordance with FASB ASC 205.45 (formerly SFAS No. 117), fund balances are classified on the statement of financial position as unrestricted, temporarily restricted, or permanently restricted net assets, based on the absence or existence and type of donor-imposed restrictions.

Unrestricted Net Assets

Unrestricted net assets is not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose having been accomplished and/or the stipulated time period having elapsed, are reported as transfers between the applicable classes of net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets includes gifts, unconditional promises to give, trusts and remainder interests, income, and gains which can be expended but for which restrictions have not yet been met. Examples of such restrictions would be where donors have specified the purpose for which the net assets is to be spent such as for capital projects or athletic programs.

**Southwest Mississippi Community College Foundation, Inc.**  
Summit, Mississippi  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2018

**Permanently Restricted Net Assets**

Permanently restricted net assets includes gifts required by donors to be permanently retained. The Foundation's permanently restricted net assets consists primarily of endowed scholarship funds. Typically these scholarships award annual earnings on the funds up to five percent and all earnings over five percent are added back to the principal of the endowed scholarship.

**Income Taxes**

The Southwest Mississippi Community College Foundation, Inc. is a not-for-profit organization exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509 (a)(2). Tax years 2015, 2016, and 2017 are still open for possible examination by the Internal Revenue Service.

**Donated Assets**

Donated marketable securities are disposed of upon receipt and are then recorded as contributions at the amount of proceeds received from the sale. Donations of equipment are not recorded in the financial statements. These items are recorded in a separate ledger with no value assigned to them. These items are distributed to the department within the College as designated by the donor, or if undesignated, to the department of the College that has the greatest need for the donated assets as determined by the Board of Directors.

**Donated Services and Facilities**

The Foundation receives a substantial amount of services donated by citizens interested in the Foundation's programs. Because of the difficulty in assigning values for such services, these items are generally not reflected in the accompanying financial statements. The Foundation also receives office space from Southwest Mississippi Community College and a substantial amount of services donated by employees of the College. No amount for rent expense has been included in these financial statements and these employees' salaries and related expenses are not included in the Foundation's financial statements but are included in the College's financial statements.

**Cash and Cash Equivalents**

Cash and cash equivalents are considered to be all highly liquid investments with maturities of six months or less at the time of acquisition.

**Southwest Mississippi Community College Foundation, Inc.**  
Summit, Mississippi  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2018

**Investments**

The Foundation has adopted FASB ASC 300.50 Investments-Debt and Equity Securities (formerly SFAS No. 124), under FASB ASC 300.50, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increase in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

**Fixed Assets**

There are no fixed assets for the Foundation as of June 30, 2018.

**Estimates**

The preparation of these financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Functional Allocation of Expenses**

The costs of providing various programs and related supporting services have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

**Note 2 Concentrations of Credit Risk**

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash. The Foundation places its cash with creditworthy, high quality financial institutions. Cash deposits in excess of \$250,000 are not insured by the FDIC.

The Foundation receives a substantial amount of support from Southwest Mississippi Community College. A significant reduction in the level of this support, if it were to occur, would have an effect on the Foundation's programs and activities.

**Note 3 Investments**

Investments of all funds are included in a pooled investment fund. The pool is operated on a market value basis whereby each addition to the pool is assigned a number of units based on the market value per fund at the beginning of the month within which the addition takes place.

Pooled investments at June 30, 2018 consist of the following:

	<u>Market Value</u>
Cash & Cash Equivalents	\$ 3,457
Mutual Funds	<u>224,886</u>
Total Investments	<u>\$228,343</u>

**Southwest Mississippi Community College Foundation, Inc.**  
Summit, Mississippi  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2018

Investment Income for the year ended June 30, 2018 was calculated as follows:

Interest and Dividends	\$10,878
Unrealized Gains and Losses	<u>( 3,209)</u>
Net Investment Income	<u>\$ 7,669</u>

**Note 4 Fair Value Measurements**

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

- Level 1                      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2                      Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3                      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018.

*Mutual Funds.* Valued at the closing price reported in the active markets in which the individual securities are traded.

**Southwest Mississippi Community College Foundation, Inc.**

Summit, Mississippi

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2018

**Note 4 Fair Value Measurements (continued)**

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflected of future fair values. Furthermore, although the organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the organization's assets at fair value as of June 30, 2018.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>\$ 224,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 224,886</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Required Supplementary Information**

**SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

**PERS**

**Last 10 Fiscal Years\***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
College's proportion of the net pension liability (asset)	0.150000%	0.150000%	0.160000%	0.170000%
College's proportionate share of the net pension liability (asset)	\$ 24,935,091	26,793,746	24,732,844	\$ 20,634,887
College's covered payroll	9,780,521	9,746,590	9,818,730	10,272,902
College's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	254.94646%	274.90378%	251.89453%	200.86716%
Plan fiduciary net position as a percentage of the total pension liability	61.49005%	57.46773%	61.70398%	67.20769%

The notes to the required supplementary information are an integral part of this schedule.

\* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the College has only presented information for the years in which information is available.

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Required Supplementary Information**

**SCHEDULE OF COLLEGE CONTRIBUTIONS**

**PERS**

**Last 10 Fiscal Years\***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 1,499,956	\$ 1,540,432	1,535,088	1,546,450						
Contributions in relation to the contractually required contribution	\$ 1,499,956	\$ 1,540,432	1,535,088	1,546,450						
Contribution deficiency (excess)	\$ 0	\$ 0	0	0	0	0	0	0	0	0
College's covered payroll	9,523,530	9,780,521	9,746,590	9,818,730						
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%	15.75%						

The notes to the required supplementary information are an integral part of this schedule.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10 year trend is compiled, the College has only presented information for the years in which information is available.



**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Required Supplementary Information**

**SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**  
**OPEB**

**Last 10 Fiscal Years\***

	<u><b>2018</b></u>
College's proportion of the net OPEB liability	\$ 1,275,472
College's proportionate share of the net OPEB liability	0.16256152%
College's covered payroll	\$ 7,303,442
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	17.46%
Plan fiduciary net position as a percentage of the total OPEB liability	0%

The notes to the required supplementary information are an integral part of this schedule.

\* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the College has only presented information for the years in which information is available.

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE****Required Supplementary Information****SCHEDULE OF COLLEGE CONTRIBUTIONS****OPEB****Last 10 Fiscal Years**

	<u>2018</u>
Contractually required contribution	\$ 54,375
Contributions in relation to the contractually required contribution	\$ 54,375
Contribution deficiency (excess)	<u>\$ 0</u>
College's covered payroll	\$ 9,523,530
Contributions as a percentage of covered payroll	0.57%

The notes to the required supplementary information are an integral part of this schedule.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No.75 was implemented in FYE 6/30/2018, and, until a full 10-year trend is compiled, the College has only presented information for the years in which information is available.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Required Supplementary Information For the Year Ended June 30, 2018

#### Pension Schedules

##### (1) Changes of assumptions

###### 2015:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.

The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

###### 2016:

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

###### 2017:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

##### (2) Changes in benefit provisions

###### 2016:

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Required Supplementary Information For the Year Ended June 30, 2018

the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

- (3) *Method and assumptions used in calculations of actuarially determined contributions.*  
The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2015 valuation for the June 30, 2017 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	33.9 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

#### OPEB Schedules

- (1) *Changes of assumptions*

2017: The discount rate was changed from 3.01% for the prior Measurement Date to 3.56% for the current Measurement Date.

- (2) *Changes in benefit provisions*

2017: None

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to the Required Supplementary Information For the Year Ended June 30, 2018

- (3) *Methods and assumptions used in calculations of Actuarially Determined Contributions.* The Actuarially Determined Contributions rates, as a percentage of payroll, used to determine the Actuarially Determined Contribution amounts in the Schedule of Employer Contributions are calculated as of the most recent Valuation Date. The following actuarial methods and assumptions (from the June 30, 2016 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market Value of Assets
Price inflation	3 percent
Salary increases, including wage inflation	3.25 percent to 18.50 percent
Initial health care cost trend rates	
Medicare Supplement Claims	7.75 percent
Pre-Medicare	
Ultimate health care cost trend rates	
Medicare Supplement Claims	5.00 percent
Pre-Medicare	
Year of ultimate trend rates	
Medicare Supplement Claims	2022
Pre-Medicare	
Long-term investment rate of return, net of pension plan investment expense, including price inflation	3.56 percent

## SUPPLEMENTARY INFORMATION

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Supplementary Information**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2018**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Pass-through Grantor No.	Federal Expenditures
<b><u>U.S. Department of Education</u></b>			
<b>Student Financial Aid Cluster</b>			
Direct programs:			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		65,389
Federal Work-Study Program	84.033		40,394
Federal Pell Grant Program	84.063		5,712,729
Total Student Financial Aid Cluster			<u>5,818,512</u>
Passed-through Mississippi Department of Education:			
Adult Education-basic grants to states	84.002	2018-208-017	94,503
Vocational Education Basic Grants	84.048	V048A170024	188,879
Total passed-through Mississippi Department of Education			<u>283,382</u>
Total U.S. Department of Education			<u>6,101,894</u>
<b><u>U.S. Department of Labor</u></b>			
<b>Workforce Innovation and Opportunity Act-Cluster</b>			
Passed-through the Central Mississippi Planning and Development District:			
WIA Adult Program	17.258	18-01-82-01	487
WIA Youth Activities	17.259	18-01-82-01	487
WIA Disabled Worker Formula Grants	17.278	18-01-82-01	649
Total passed-through Central Mississippi Planning and Development District:			<u>1,623</u>
Passed-through the Mississippi Department of Employment Security:			
WIA Governor's Reserve Fund	17-260	16-590-004-6726-1	27,879
WIA Trade Adjustment Assistance	17.245	18-01-82-01	36,357
Total passed-through Mississippi Department of Employment Security:			<u>64,236</u>
Total U.S. Department of Labor			<u>65,859</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
Passed-through the Mississippi Department of Human Services:			
Child Care and Development Block Grant	93.575	1801MSCCDF	174,072
Total passed-through Mississippi Department of Human Services:			<u>174,072</u>
Total U.S. Department of Health and Human Services			<u>174,072</u>
Total for All Federal Awards			<u>\$ 6,341,825</u>

The notes to the Supplementary Information are an integral part of this schedule.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Supplementary Information

For the Year ended June 30, 2018

Schedule of Expenditures of Federal Awards

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Southwest Mississippi Community College under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Southwest Mississippi Community College, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Southwest Mississippi Community College.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Indirect Cost Rate

The Southwest Mississippi Community College has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



REPORTS ON INTERNAL CONTROL AND COMPLIANCE

# **LOWERY, PAYN AND LEGGETT**

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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Dr. J. Stephen Bishop, President and Board of Trustees of  
Southwest Mississippi Community College  
Summit, Mississippi 39666

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business activities of Southwest Mississippi Community College, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Southwest Mississippi Community College's basic financial statements, and have issued our report thereon dated January 31, 2019. We have also audited the statement of financial position of the Southwest Mississippi Community College Foundation, Inc., a discretely presented component unit of Southwest Mississippi Community College, as of June 30, 2018 and the related statement of activities for the year then ended. The financial statements of Southwest Mississippi Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Southwest Mississippi Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southwest Mississippi Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Mississippi Community College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Southwest Mississippi Community College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do

not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lowery, Payn and Leggett, CPAs". The signature is written in a cursive, flowing style.

Lowery, Payn and Leggett, CPAs

Brookhaven, Mississippi  
January 31, 2019

**LOWERY, PAYN AND LEGGETT**  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Dr. J. Stephen Bishop, President and Board of Trustees of  
Southwest Mississippi Community College  
Summit, Mississippi 39666

**Report on Compliance for Each Major Federal Program**

We have audited Southwest Mississippi Community College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southwest Mississippi Community College's major federal programs for the year ended June 30, 2018. Southwest Mississippi Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Southwest Mississippi Community College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southwest Mississippi Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Southwest Mississippi Community College's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Southwest Mississippi Community College, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control over Compliance**

Management of Southwest Mississippi Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southwest Mississippi Community College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate

in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southwest Mississippi Community College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Lowery Payn & Leggett, CPAs". The signature is written in dark ink and is positioned above the printed name of the firm.

Lowery, Payn and Leggett, CPAs

Brookhaven, Mississippi

January 31, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

# **LOWERY, PAYN AND LEGGETT**

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

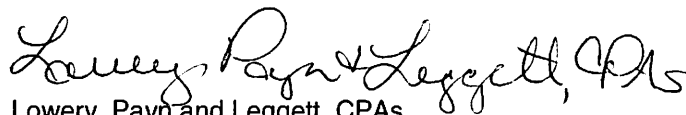
Dr. J. Stephen Bishop, President and Board of Trustees of  
Southwest Mississippi Community College  
Summit, MS 39666

We have audited the financial statements of the business activities of Southwest Mississippi Community College as of and for the year ended June 30, 2018, which collectively comprise Southwest Mississippi Community College's basic financial statements and have issued our report thereon dated January 31, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the College, Members of the Legislature, entities with accreditation overview, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Lowery, Payn and Leggett, CPAs  
Brookhaven, Mississippi 39601

January 31, 2019

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

Section I: Summary of Auditor's Results

Financial Statements:

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditor's report issued:                      | Unmodified    |
| 2. | Internal control over financial reporting:            |               |
| a. | Material weakness identified?                         | No            |
| b. | Significant deficiency identified?                    | None Reported |
| 3. | Noncompliance material to financial statements noted? | No            |

Federal Awards:

- |    |   |   |
|----|---|---|
| 4. | Internal control over major programs:   |   |
| a. | Material weakness identified?   | No  |
| b. | Significant deficiency identified?  | None Reported                             |
| 5. | Type of auditor's report issued on compliance for major programs:                                   | Unmodified                                |
| 6. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | No  |
| 7. | Identification of major programs:   |   |
|    | <u>CFDA Numbers</u>   | <u>Name of Federal Program or Cluster</u> |
|    | 84.007, 84.033, 84.063  | Student Financial Aid Cluster             |
| 8. | Dollar threshold used to distinguish between type A and type B programs:                            | \$ 750,000                                |
| 9. | Auditee qualified as low-risk auditee?  | Yes                                       |

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

Section II: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported under *Government Auditing Standards*.

Section III: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.